

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Finance from the NOVA – School of Business and Economics.

# Wealth Management in Africa

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## The Cape Verde Opportunity

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### Abstract:

This work project consists of a comprehensive study of the possibility of opening a Wealth Management (WM) firm located in Cape Verde (CV), and was made at the request of NovoBanco's Research Sectorial team. WM is a growing industry that consists in the set of financial services provided to wealthy clients. After taking into account the expected industry growth of the Sub-Saharan region, the preferences of the African wealthy, the current industry structure, and the advantages and disadvantages of locating a WM business in CV, it is concluded that a business opportunity exists. The reasons for this, along with relevant recommendations, including which services a new business should offer and whom to target specifically, are presented in the final section.

**Key Words:** Wealth Management, African High Net Worth Individuals, Cape Verde.

## INTRODUCTION

This study aims to answer the question: is opening a WM business, and having it specifically located in the Western Africa (WA) archipelago an attractive proposition? The relevance of evaluating the WM industry's potential becomes clear when taking into account the extraordinary growth that the number of the world's fortunes and their size has undertaken in the last decades<sup>1</sup>. Furthermore, some main generic factors that are known to cause this evolution, including economic growth and demographic factors, are currently being observed in the Africa continent, spurring the question if sufficient fortunes are now being there formed to justify a bigger focus of the WM industry in the area. This work project will firstly include a brief explanation of what WM is, followed by an analysis of the Sub-Saharan Africa (SSA) marked size and its growth prospects, as well as the market current structure, including the distinction between a Local and Global business (traditionally onshore and offshore), an existent competition overview, and some insights into the African wealthy preferences. After that, CV will be evaluated as a potential jurisdiction, seeing that this country is not only located in one of the fastest growing regions of the continent, but also has close ties to Portugal, country were NovoBanco if from. By making use of 10 criterion classified in levels of attractiveness (High to Low), a Conclusion will be presented, along with related recommendations.

## WEALTH MANAGEMENT

WM consists in the set of *financial services provided to wealthy clients, mainly individuals and their families*<sup>2</sup>. These services are of a rather more individualized and tailored nature than those more commonly observed in the retail financial services industry and might include not only core banking products, but also brokerage services, lending products, insurances, and all sorts of asset management and advisory, ranging

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<sup>1</sup> Maude, David. 2006. Global Private Banking and Wealth Management: The New Realities. West Sussex: Wiley Finance, p.13

<sup>2</sup> Ibid, p.1

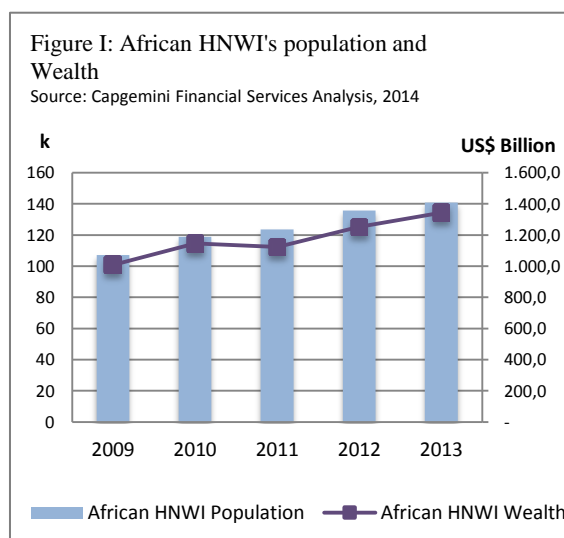
from non-discretionary to discretionary action, and encompassing a wide range of financial and non-financial products. Additionally, various types of planning support might be offered including inheritance, tax, trusts, and philanthropic work<sup>3</sup>. A client can be considered wealthy as soon as its assets amount to \$100.000, however the industry-wide used term 'High Net Worth Individual' (HNWI) is only earned when he or she possesses more than \$1 million in investable wealth<sup>4</sup>. HNWI are the preferred segment targeted by Private Banks, due to their customary demand for personalized services in order to maintain, to preserve and possibly to grow the assets they own. A WM business can, therefore, find many sources of differentiation amongst competitors: in the types of products and services offered, to which clients they offer them, and ultimately, regarding the objectives of their clients.

### MARKET ATTRACTIVENESS

In order to find out if having a WM business, particularly in the West Africa (WA) region, is an attractive opportunity, both the respective market size and growth prospects will be analyzed in the next section.

#### Market Size<sup>5</sup>

In 2013, the African HNWI population reached a record of 140,8 million individuals, whose aggregated net worth amounted to US \$1.343,5 billion<sup>6</sup> (Figure I). Even though Africa is still bellow every other analyzed region in terms of both Wealth Population and Distribution in



<sup>3</sup> Maude, David. 2006. Global Private Banking and Wealth Management: The New Realities. West Sussex: Wiley Finance, p.1

<sup>4</sup> Investopedia. 2014. High Net Worth Individual-HNWI. URL: <http://www.investopedia.com/terms/h/hnwi.asp/>

<sup>5</sup> As previously mentioned, there are different customer segments a firm can target in this industry. For the purpose of this analysis, we will focus solely on the HNWI segment.

<sup>6</sup> Capgemini and RBC Wealth Management. 2014. World Wealth Report, p.5

absolute values, its growth has been recurrent<sup>7</sup>. According to Capgemini's World Wealth Report 2014 this trend is set to continue, as an expected annualized growth rate of 6,0% is predicted to build up into a combined wealth of US \$1.600,1 billion<sup>8</sup> by 2016 for the African wealthy. The encouraging expectations are justified as being brought on by the recovering economy, finally showing normalcy signs after the financial crises of 2008-09. Improved investor sentiment and asset growth are expected to keep rising.

Table I: African HNWI's, 2013

HNWI Client band	Financial assets (million USD)	Number of HNWIs	% of clients	ESTIMATE	
				Value of the market (billion USD)	% of total value
High Net Worth Individuals	1-5	126.293	89,69%	469,65	34,94%
Very High Net Worth Individuals	5-30	12.105	8,60%	266,21	19,81%
Ultra High Net Worth Individuals (UHNWIs)	30-100	1.868	1,33%	144,92	10,78%
Centa-Millionaires	100-1.000	509	0,36%	362,26	26,95%
Billionaires	>1.000	42	0,03%	101,00	7,51%

Source: **Capgemini** and **RBC Wealth Management**. 2014. World Wealth Report; **Knight Frank**. The Wealth Report 2014; **Wealth-X**. The Wealth-X and UBS Billionaire Census 2013; **Author's** analysis.

In the above table one can find a segmentation of the African wealthy into client bands.

An important characteristic to reckon is the impressive 45,25% of total HNWI's value that is held by the 3 most affluent client bands, whose members hold more than \$30 million in investable assets, while the world average is 34,60%<sup>9</sup>. The riches are thus clearly worst distributed amongst the rich in this continent then they are in the rest of the world. Moreover, the geographical distribution is uneven, with more than 50% of wealthy individuals belonging to only 3 countries: South Africa, Egypt and Nigeria (Appendix I). WA in total houses about 20.200 HNWI's, with the biggest concentration originating from Nigeria, Ghana and Ivory Coast<sup>10</sup>.

### Market Growth

It is no coincidence that simultaneous to the African economic growth, is the growth of the fortunes there formed.

<sup>7</sup> **Capgemini** and **RBC Wealth Management**. 2014. World Wealth Report, Figure 1 and 2

<sup>8</sup> *Ibid.*, p.12

<sup>9</sup> **Capgemini** and **RBC Wealth Management**. 2014. World Wealth Report, p.6

<sup>10</sup> **NW Wealth**. Nigeria, Ghana and Africa Wealth Report 2014. Research and Markets' printable brochure.

As it is put in a recent report by Forbes Insights<sup>11</sup>, “Economic growth spurs growth in fortunes”<sup>12</sup>. We already saw that the number of HNWIs and their wealth is expected to keep rising; now we have a chance to confirm the positive prospects by analysing the favourable conditions this continent faces economically, politically and even demographically. The focus will be on sub-Saharan Africa (SSA) and WA in particular as much as possible.

- **Economy:** Economic growth in SSA continues to outshine many other world regions’ growths (Appendix II), with the economic activity in the region flourishing due to supportive external demand conditions and increase in public and private investment<sup>13</sup>. This growth is expected to pick up to about 5,7% per annum between now and 2018, with inflation set to remain contained. The risks that might cast a shade over the economic activity come mainly from the outbreak of the Ebola virus in WA, the latest IMF outlook report notices, as well as some unsolved policy missteps in various countries and a number of ongoing conflicts. Regarding the SSA stock markets, even though being known for their lack of size and high degree of illiquidity, with the only few traded shares representing the majority of market capitalization (Yartey and Adjasi 2007), they have shown high equity returns the last years, outperforming some benchmarks indices (Appendix III and IV). An increased number of SSA countries have also increased their international bond issuance activity. Some argue that the initiative will potentially boost transparency in the issuing markets as well as ignite market reforms and improve fiscal management, propelled by the consequent augmented international scrutiny (Mecagni, Mauro et al. 2014).

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<sup>11</sup> **Forbes Insights.** 2013. Emerging Markets: Joining the global ranks of wealth creators.

<sup>12</sup> Besides economic growth, another key wealth driver rather important to consider is the price evolution of different assets, since wealthy individuals who hold parts of their wealth in the form of assets, will certainly see their pie increase if prices rise.

<sup>13</sup> **IMF.** October 2014. World Economic Outlook: Legacies, Clouds, Uncertainties. p.64

- **Demography:** SSA's population has been growing about 2,7% a year over the last 5 years, more than twice as fast as the world average yearly growth of 1,2%<sup>14</sup>, rendering it's population one of the most youthful in the world. The region's population also lives longer, having life expectancy at birth increased from 40 to 56 years old in the period between 1960 and 2011<sup>15</sup>. Many Sub-Saharanans are relocating to urban areas, a trend that will continue according to the United Nations (UN), which estimates that 50% of all Africans will live in cities by 2035. In these urban areas, new consumer markets appear, and infrastructures are built to satisfy the needs of the growing middle class and their unprecedented disposable income. In terms of education, UN news center reports<sup>16</sup> that increasing spending from governments is bearing fruit, as the enrollment in primary school in WA escalates.
- **Politics (Business Environment):** In terms of politics, one of the most flagrant changes seen in SSA over the last 25 years is the multiplication of democratic states in detriment of autocratic ones. In fact, according to Freedom House<sup>17</sup>, in 1990 there were only 3 electoral democracies, whereas in 2014 the number had increased to 19 (7 of which WA countries), encompassing almost 40% of the regions' nations<sup>18</sup>. Other observed welcome changes were the adoption of prudent fiscal management by many nations and the opening up to trade and investment<sup>19</sup>.

It is true that the continent still presents risks, many of them connected to the fact that regulatory institutions, stable political systems and business practices are still being

<sup>14</sup> **World Development Indicators.** 2009-2013. "Population, Total". The World Bank <http://databank.worldbank.org/data/home.aspx> (accessed September 24, 2014).

<sup>15</sup> Ibid., "Life expectancy at birth, total (years)"

<sup>16</sup> **UN News Center.** 2011. "UN report reveals increasing spending on education in SSA" <http://www.un.org/apps/news/story.asp?NewsID=38203#.VGSNozSsVWI>

<sup>17</sup> **Freedom House.** 1990-2014. "Electoral Democracies: Freedom of the World" <https://freedomhouse.org/report-types/freedom-world> (accessed December 12, 2014)

<sup>18</sup> It is still under debate if a democratic government leads to economic prosperity. While some argue that it has no impact in it whatsoever, like Przeworski et al. (2000), other studies indicate democracy is good for growth since governments possibly show a bigger commitment to rule of law and property rights, Rodrik et al. (2002).

<sup>19</sup> For further detailed information see article: **Kirby, Oliver.** 2013. "Sub-Saharan Africa: Capitalism's new frontier?" Investec Research & Insights <https://www.investec.com/research-and-insights/countries/sub-saharan-africa--capitalisms-new-frontier.html>

built, whereas in mature markets there has been time to consolidate over the last century<sup>20</sup>. Nonetheless, it is undeniable that the continent has a lot to offer the world. The combination of all the favorable conditions seen above, alongside with the continent's abundant natural resources (10% of the world's oil reserves, 40% of its gold, and 80%-90% of its chromium and platinum), agricultural potential (about 60% of the world's uncultivated, arable land) and increasing demand from the growing population<sup>21</sup>, all contribute to the rise of this market's attractiveness. Foreign Direct Investment (FDI), consequently, has been increasingly flowing to the region, especially to Southern and Western Africa<sup>22</sup>. All the necessary conditions for the creation of new fortunes and the increase of the existing ones seem to be in place.

## MARKET STRUCTURE

Also relevant before deciding to open a business is to evaluate if there is space for a new entry, done through the study of its current market structure. In this section, it was found to be useful not only to analyse the existent types of firms and current industry players, but also to investigate some of the preferences of the targeted customers in order to begin to understand which business model from a new entrant would be better received and possibly the answer to an unfulfilled need.

### Local Banking vs Global Banking Relationships

One of the most important distinctions that can be made within the WM business is its geographical location. It can either be ran within the client's main country of residence or from abroad (traditionally called offshore). A client might choose to employ the services of an abroad firm for reasons such as: legal system and tax considerations, lack of appropriate products onshore, pursuit of financial confidentiality, and avoidance of

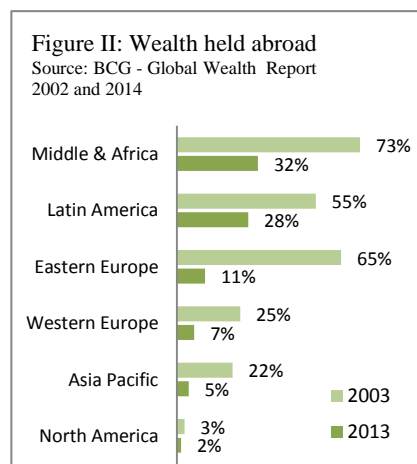
<sup>20</sup> **Forbes Insights**. 2013. Emerging Markets: Joining the global ranks of wealth creators.

<sup>21</sup> **Kirby, Oliver**. 2013. "Sub-Saharan Africa: Capitalism's new frontier?" Investec Research & Insights <https://www.investec.com/research-and-insights/countries/sub-saharan-africa--capitalisms-new-frontier.html>

<sup>22</sup> **E&Y**. 2014. Attractiveness survey, Africa 2014: Executing Growth, p. 22



local market from lack of trust or in response to macroeconomical risks<sup>23</sup>. For African investors, global banking has much allure as a consequence of the many risks typically high in the continent, such as political instability, fraud, corruption and illiquidity. A firm able to mitigate against these risks, offering a safe haven has, hence, increasing demand<sup>24</sup>. The amount of money the average HNWI has abroad varies greatly from region to region (Figure II). The clear global trend experienced over the past 10 years is for a greater proportion of assets to be held locally, mainly due to tax initiatives that render traditional foreign markets less attractive<sup>25</sup>. At the client level, there is a positive relation between wealth increase and wealth held offshore<sup>26</sup>, as the super-rich further diversify their



portfolios not only with different assets, but also geographically. The top worldwide Global Banking destinations in 2013, according to the latest BCG Wealth Report<sup>27</sup> were: Switzerland (\$2.3 trillion), Hong Kong and Singapore (\$1.4 trillion), and Caribbean and Panama (\$1.2 trillion).

## Competition

The competition in the WM industry has recently been described as fluid and concentrated, currently undergoing through major shifts as firms adapt to the new regulatory compliance focus, the increase in digitalization and the growth of the emerging markets<sup>28</sup>. The global competition landscape can be found in Appendix V, where the firms physically present in SSA are underlined. Most of the existing firms in

<sup>23</sup> Maude, David. "Global Private Banking and Wealth Management: The New Realities" West Sussex: Wiley Finance, p.4

<sup>24</sup> As affirmed by Tom Price-Daniel, managing director at Price Daniel Partners, for the article "Managing the Wealth of Africa's Rich", published on January, 2013 in the African Business Magazine. <http://africanbusinessmagazine.com/african-banker/managing-the-wealth-of-africas-rich/>

<sup>25</sup> Maude, David. "Global Private Banking and Wealth Management: The New Realities" West Sussex: Wiley Finance, p.5

<sup>26</sup> Ibid.

<sup>27</sup> BCG. 2014. "Global Wealth 2014: Riding a Wave of Growth", p.10

<sup>28</sup> PWC. 2014. "Global wealth management outlook 2014-15: New Strategies for a changing industry", pp.6-7

the continent (over 50%, according to Novare Investments' *Investing in Africa – Funds and Managers Survey* 2010) are located solely in South Africa, since the country is seen as “a stepping stone into Africa”<sup>29</sup>. Looking further into the South African WM industry, one can observe that there is still a lot of ground to cover: a 2011 Insights report by NMG Group informs that the sector is ‘fragmented’ and ‘competitive’, with not one provider accomplishing a market share higher than 12%. Lack of differentiation in areas other than price is appointed as the cause of failure to increase market share for these firms. Several of the underlined players seen in Appendix V are international foreign firms that benefit greatly from their strong brand and global reach, attractive qualities in this industry, as well as from their experience dealing with private clients. Can, therefore, local firms compete? According to Price-Daniel<sup>30</sup>, the answer is yes, through their advantageous local knowledge (administrative, legal or cultural for example) and regional commitment.

### African HNWI preferences

When it comes to the target customers, the African HNWIs, the first important aspect to consider is that quite a lot of their fortunes are relatively recent and were created from scratch: about 48% are self-made, and 38% have been grown even more by the next generation after inherited<sup>31</sup>. This characteristic might explain the still relatively low development of the WM industry Africa, since customarily, its appeal spikes with “intergenerational wealth transfers”, a stage only now beginning in the continent<sup>32</sup>. The origin of such fortunes naturally varies, with Financial, Banking and Investment industry currently being the most significant fortune maker<sup>33</sup>.

<sup>29</sup> As described by **Van Niekerk**, investor advisor at Maitland, for the article “Managing the Wealth of Africa’s Rich”, published on the African Business Magazine (2013). <http://africanbusinessmagazine.com/african-banker/managing-the-wealth-of-africas-rich/>

<sup>30</sup> **Price-Daniel, Tom**, managing director at Price Daniel Partners, on “Managing the Wealth of Africa’s Rich”, African Business Magazine(2013). <http://africanbusinessmagazine.com/african-banker/managing-the-wealth-of-africas-rich/>

<sup>31</sup> **Wealth-X and UBS**. 2013. “Billionaires census 2013”, p.15

<sup>32</sup> **Forbes Insights**. 2013. “Emerging Markets: Joining the global ranks of wealth creators”, p.24

<sup>33</sup> New World Wealth Reports on biggest African economies, which found that 16% of South Africans HNWIs wealth has its source in the financial services sector and up to 24% in Ghana

As seen before in Figure II, and below in Figure III, not unlike developed market HNWIs, the African wealthy invest the biggest share of their fortunes in their home markets, either in their own companies or in other business they perceive to have more knowledge about, displaying a very obvious cross-industry home-bias.

Figure III: Geographical allocation of wealth, relative to 2013

Source: NW Wealth report 2014 for South Africa, Nigeria and Ghana

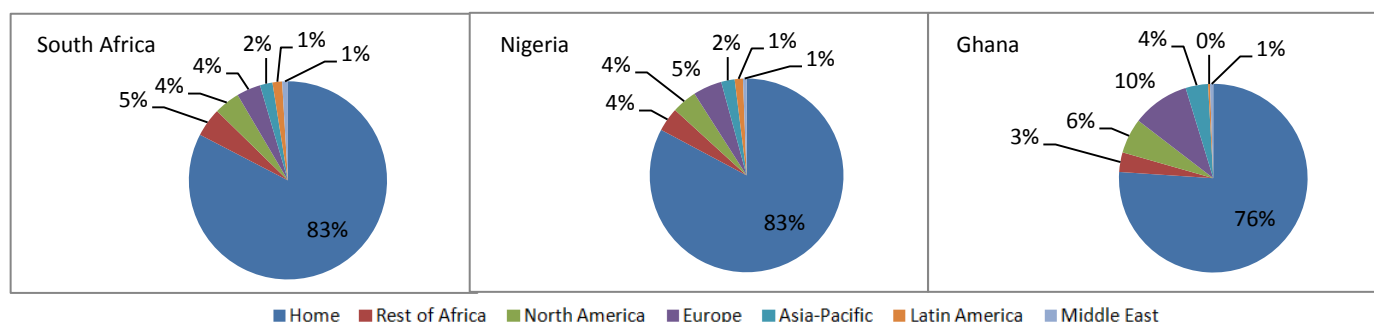
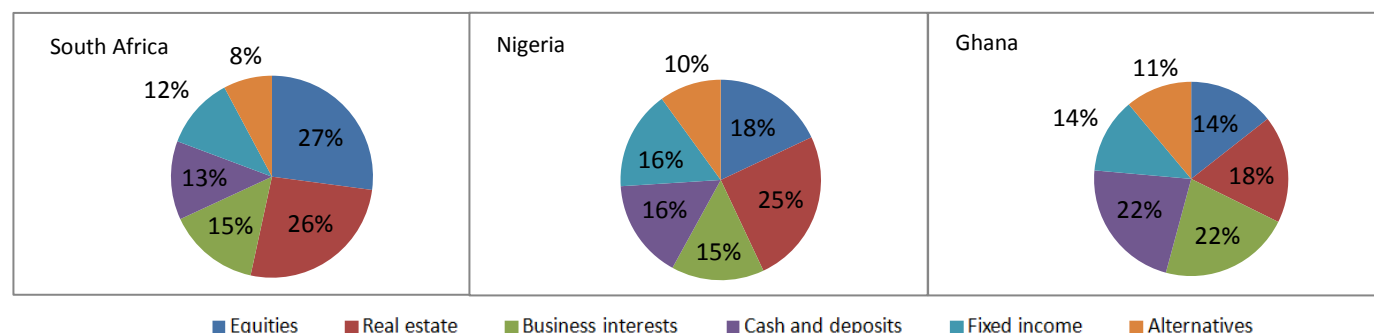


Figure IV: Asset investment allocation of wealth, relative to 2013

Source: NW Wealth report 2014 for South Africa, Nigeria and Ghana



When it comes to the asset allocation structure (Figure IV), significant variances can be observed between countries. In South Africa, where the stock market is more developed, there is a relative bigger preference for Equities as investment destination. Nigerian HNWIs preferred Real Estate in 2013, one of the industries driving the most growth in the country<sup>34</sup>. And Ghanaians leave 22% of their investable wealth in Cash and Deposits as a “crisis-move” to a safer place<sup>35</sup>. Two different deductions can be made regarding these preferences. Firstly, the partiality for reinvesting in the home country suggests the existence of a market for the management of investments by Africans for

<sup>34</sup> McKinsey Global Institute. 2014. “Nigeria’s renewal: Delivering inclusive growth in Africa’s largest economy”, p.38

<sup>35</sup> NW-Wealth. 2014. “Ghana Wealth Report 2014”, p.8

Africans, since local firms might profit from advantages, as mentioned before, in terms of culture understanding or regulatory compliance. Furthermore, being able to be closer to clients will only become more advantageous as the various industries and asset classes develop within the continent. And secondly, Africa is a diverse continent, and thus, should not be treated as a whole. A new entrant in the business should target a certain market and specialize in their needs.

- Need for Privacy

According to the Forbes Insights Wealth Panel<sup>36</sup>, the **Openness about Wealth** displayed by the African Wealth Creators is ranked at 3.8, on a 0-10 scale (10 being the most transparent), while for mature markets, this variable currently has on average a 7.3 score. In the report, Stephen Saad, CEO of Aspen Group in South Africa, argues that the reason for the less transparency displayed has everything to do with the fact that these fortunes are newly created, and more precisely, the way they were created is not yet forgotten. It is no wonder then, that African HNWIs have a comparatively greater need for privacy regarding their fortunes. Traditionally this need would be swiftly satisfied by the recruitment of the services of Private Banks located in Global Banking centers such as Luxembourg and Switzerland, where banking secrecy was a differentiating advantage. However, today's reality is distinct. A regulatory and fiscal reform was brought on by the worldwide need to keep a straighter set of regulations restraining financial services actions after the financial crisis<sup>37</sup>. Initiatives such as the Final Withholding Tax Agreements between Switzerland, Austria and the UK, or the EU Saving Directive, are improving tax transparency amongst the involved countries and blowing away their tax haven and financial confidential status. New opportunities are thus opened for other players presently waiting to gain market share. These players

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<sup>36</sup> **Forbes Insights**. 2013. "Emerging Markets: Joining the global ranks of wealth creators", pp.9-11

<sup>37</sup> **Fischer, R., Jonge, M., Ko, D. and Toepfer, O.** 2013. "Wealth Management in New Realities", Roland Berger, pp.23-25

range from big banks and institutions housed in other international finance centers such as Singapore and Hong Kong<sup>38</sup>, to smaller niche players that can create value through differentiation and unique positioning.

- Investments and Pursuits

Philanthropy is the most frequent notable investment/pursuit made by the African wealthy<sup>39</sup>, and is allegedly done with the goal of “building a robust civil society able to advance Africa’s development goals.”<sup>40</sup> When this pursuit passes its current beginning stages, a need for advice in such charitable matters might arise, something that happened in mature markets<sup>41</sup>. Another favorite pursuit is Sports related investments (6/50 make them already<sup>42</sup>), with goals that might vary from wanting to bust investors’ egos and gain media interest<sup>43</sup>, to making a profit<sup>44</sup>. One thing is certain, in order to please the privileged, a wealth manager might want to either familiarize himself with some of these eccentric pursuits (along with others such as art, wine, luxury cars, planes or jewelry) or have trusted specialists at hand to whom to appoint the investors to.

## THE CAPE VERDE OPPORTUNITY

The next step of this analysis is to evaluate the possibility of opening a WM office in CV, an archipelago composed of 10 islands located in the West coast of Africa, 450 km off the coast of Senegal<sup>45</sup>. For a Portuguese bank such as NovoBanco, the archipelago’s appeal as a jurisdiction is quite obvious due to the positive relations the two countries share. Nonetheless, the attractiveness of the country has to be measured from a Global perspective. Thus, firstly, its physical and cultural characteristics, along

<sup>38</sup> BCG. 2014. “Global Wealth 2014: Riding a Wave of Growth”, pp.9-10

<sup>39</sup> In fact, out of the 50 UHNWIs interviewed by Forbes Insights, 12 had already donated part of their wealth to philanthropic causes. 2013. “Emerging Markets: Joining the global ranks of wealth creators”

<sup>40</sup> African Philanthropy Forum. Webpage overview. <http://philanthropyforum.org/apf/> (accessed December 12, 2014)

<sup>41</sup> Philanthropy is interrelated with WM. According to Stonehage “largely because of a growing understanding that financial assets have limited value without a broader context”. Philanthropy comes as the answer to leave a lasting positive impact in the world.

<sup>42</sup> Survey of 50 African UHNWIs by Forbes Insights (2013). “Emerging Markets: Joining the global ranks of wealth creators”

<sup>43</sup> According to Kurt Badenhausen, a Forbes senior editor and expert on international sports team valuations.

<sup>44</sup> In fact, sports franchises have been recently described, in a report by ComverEx, as a new asset class and show great promise as they move independently of both other financial or physical assets (globally the industry is valued at \$550 billion).

<sup>45</sup> For more information check: <http://www.cvinvest.cv/index.php/en/cape-verde/localizacao>

with the previous gathered information regarding African HNWI, will be taken into account in order for a targeted customer segment to be recommended. Secondly, the country characteristics that might influence negatively or positively a WM business will be brought to light, with the goal of measuring this jurisdiction attractiveness. Finally, some recommendations will be given regarding the type of player that would most likely succeed in the country and with the targeted customers.

- **Target Customers**

CV is not a comparably good source of HNWI (seen in Appendix I) therefore, any business done there should target the wealthy from other countries, and consequently be an **offshore** firm. Since Africa has a vast number of diverse countries, it would be advisable for a business that is just starting, to focus their first efforts on a relatively small number of targets benefiting thus from greater efficiency and economy. Due to the proximity to CV, the great growth potential of some of the countries there located, and the relative low number of competitors there operating (when comparing to Southern Africa for example), **West Africa** seems to be a good first target. Within WA, Nigeria, Ghana and Ivory Coast especially show great promise when it comes to HNWI population. In Nigeria the majority of players are large universal banks with offices in the country (like Standard Chartered and UBS) that clearly target onshore wealthy individuals<sup>46</sup>, and others are local banks (Fidelity Bank, GT Bank and Standic) that offer WM-like services but do not target HNWI specifically<sup>47</sup>. In Ghana and Ivory Coast considerably less players exist and they typically do not target HNWI. An entering player targeting this region could therefore, by employing the right strategy, benefit from being one of the pioneers to offer financial services tailored specifically for

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<sup>46</sup> As seen in each bank's website.

<sup>47</sup> Ibid.

these rather internationally neglected wealthy: the West African HNWIs and Ultra-HNWIs.

- **Attractiveness analysis of Cape Verde as a WM business location**

<u>High</u> 1- Political Stability (9.5%) 2- Monetary Stability (9.5%) 3- Travel Destination (2.5%) 4- Tax (10%)	<u>Medium Low</u> 7- Clients Capital Rights Protection (10%) 8- Human Capital (8.75%) 9- Financial System Stability (6%)
<u>Medium High</u> 5- Infrastructure (2.5%) 6- Regulation (15%)	<u>Extra-Jurisdictional</u> 11- WM Service Quality (12.5%) 12- Efficiency of WM services providers (8.75%)
	<u>Low</u> 10- Capital Market Development (5%)

The attractiveness levels range from **high to low**. The comparative analysis was made not only relatively to other WA potential business locations, but also relatively to current popular WM hubs **worldwide** (such as Switzerland and the UK). The criteria above enumerated are the ones used by Deloitte in their *Wealth Management Centre Ranking*. The topics 1-10 are external and therefore deal with the attractiveness of a certain jurisdiction. 11 and 12 are of the responsibility of each firm (extra-jurisdictional). The percentages correspond to the weight each criterion is given in the mentioned ranking and are here presented in a purely informative manner.

- 1- **Political stability.** CV enjoys a stable parliamentary regime, is at peace, and has no foreseeable treats. Besides being the WA country with the highest Democracy score, it is also considered one of the world's most stable democracies, currently with high marks for good governance, considered least corrupt of WA, and the third with most Economic Freedom (see Appendix VI). This stability is of extreme importance for WM clients. They value safety when it comes to protecting their assets, the lack thereof being cause for a wealth transfer to somewhere safer.
- 2- **Monetary stability.** The country enjoys a rather stable and credible monetary system, thanks to the pegging of local currency (Cape Verdean Escudo) to the Euro. Not only does this lead to a low risk of exchange-rate fluctuation, but also to the development of strong financial ties and trade to the euro area<sup>48</sup>. Moreover, the country has enjoyed a decline in inflation recently, albeit caused by the slowdown on both internal and external demand and simultaneous increase in domestic production<sup>49</sup>.

<sup>48</sup> African Development Bank. 2012. "Cape Verde: A success story", p.41

<sup>49</sup> Banco de Cabo Verde. May 2014. "Monetary Policy Report", p.3

- 3- Travel Destination.** Being an attractive travel destination is a competitive advantage, given the common favoritism international clients have for a more pleasant business trip destination when traveling to visit their wealth managers<sup>50</sup>. When it comes to tourism, CV has the right profile and even benefits from a strategic position in mid-Atlantic, near the proposed client targets home countries. Known for its great weather, cultural diversity and colorful gastronomy, the country has the necessary conditions to host and entertain wealthy individuals in a variety of luxury resorts.
- 4- Tax.** The Cape Verdean government has been showing remarkable encouragement with regards to FDI. Various sectors of the economy are graced with both fiscal and non-fiscal incentives. The Financial sector is no exception. The main **fiscal benefits** for international financial institutions are<sup>51</sup>:

- Corporate Income Tax (CIT) exemption until 2017 and 2.5% from then on;
- Income paid to their international clients is exempt from all taxes or duties;
- CIT of 10% on capital gains obtained in Investment funds outside of CV, paid by the fund, and exception at the client level;
- Retirement and Education saving funds are exempt from CIT;
- Income from long term deposits (>5 years) held in CV by individuals are subject to reduced 10% CIT and 6.25% levied on 25% of taxable income if maturity date is more than 10 years.

In a comparative analysis between the country and some of the worlds' most popular and taxation-attractive Global Banking center destinations (Appendix VII and VIII), it is found that CV is not only advantageous when it comes to CIT and Capital gains tax, but also when it comes to Withholding taxes, especially Dividends.

- 5- Infrastructure.** A developed infrastructure is an attractive feature for a jurisdiction offering services to HNWI's given the importance of not only transportation but also telecommunication networks for international business<sup>52</sup>. Even though, CV has the 4<sup>th</sup>

<sup>50</sup> Deloitte. 2013. "The Deloitte Wealth Management Center Ranking 2013: Measuring competitiveness of international private wealth management in Switzerland", p.14

<sup>51</sup> Código de Benefícios Fiscais – Lei nº 26/VII/2013 de 21 de Janeiro (Legislação Financeira de Cabo Verde)

<sup>52</sup> In the 2013 PWC industry survey ("Navigating to tomorrow: serving clients and creating value"), 'In person' contact was found to be the second most frequent interaction style generally used between wealth managers and their clients, being only overrun by 'Telephone' communications.



most developed infrastructure in SSA<sup>53</sup>, with four international airports that connect the country to continental Africa, Europe, and South and North America<sup>54</sup>, many direct routes to other centers are lacking (to Dubai, UAE and even the UK, for example). Additionally, their developed Energy, Water and Telecommunication services are considered expensive for regional standards<sup>55</sup>.

**6- Regulation.** One can regard the regulatory environment of the country as opportunistic both due to its judicial efficiency<sup>56</sup>, and commitment to better regulation quality set to improve the financial center attractiveness and keep up with the OCDE standard level. The regulatory quality is currently the worst performing governance indicator of the country, out of those measured by the World Bank<sup>57</sup>. However, the indicator is already considerably above the SSA average and the country has recently made significant progress in the implementation of the 2009 Financial Sector Assessment Program (FSAP) recommendations<sup>58</sup>. Important improvements were consummated in Basic Banking Law and Financial Institutions Law<sup>59</sup> that are set to enhance the oversight powers of the financial supervisory entity, Banco de Cabo Verde.

**7- Clients Capital Rights Protection.** Confidentiality wise, Cape Verdean legislation declares any breach (or its mere attempt) of confidential information, namely client names, account numbers and movements, as well as any exchange rate or financial operations, punishable by law<sup>60</sup>. Furthermore, the right to private ownership and establishment is guaranteed under the Constitution, as is the recognition of Property

<sup>53</sup> **African Development Bank.** 2013. “The Africa Infrastructure Development Index (AIDI)”; (Top 3: Seychelles, South Africa and Mauritius), p.6

<sup>54</sup> Africa (1h20 to Dakar, Senegal), Europe (3h40 to Lisbon, Portugal and 5-6h to Central Europe), South America (3h40 to Fortaleza, Brazil) and North America (7h to Boston, USA).

<sup>55</sup> **World Bank.** 2010. “As infraestruturas em Cabo Verde: Uma perspetiva Continental”, p.1

<sup>56</sup> In the most recent Doing Business report (2015), Cape Verde was ranked ahead of all other Sub-Saharan countries in terms of ‘Enforcing Contracts’, a measurement of the efficiency of the country’s judicial system. Rank: 39/189

<sup>57</sup> **Worldwide Governance Indicators.** 2013. ‘Regulatory Quality’: Cape Verde: 48/100 percentile rank; SSA: 30/100.

<sup>58</sup> FSAP definition: “Comprehensive and in-depth analysis of a country’s financial sector. FSAP assessments are the joint responsibility of the IMF and the World Bank”.

<sup>59</sup> **IMF Staff report.** 2014. “IMF Country Report No. 14/296: Cabo Verde”, p.17

<sup>60</sup> **Legislação Financeira de Cabo Verde 2007** - Artigo 8º - Lei nº 43/III/88 de 27 de Dezembro - “Confidencialidade e sigilo das operações”. (The only predicted exceptional breach to the secrecy between client and international financial institution is that of a judicial warrant, in the context of crime investigations.)

Rights<sup>61</sup>. On the other hand, the fact that CV has not signed the Automatic Information Exchange Agreement<sup>62</sup>, a very important transparency standard that would surely increase the governance and accountability of the country, brings uncertain consequences. For once, it might attract illicit financial flows to the country coming from jurisdictions where the agreement is in place, which potentially brings added reputational and operational risks to institutions there operating. The proof CV is not yet totally protected against money laundering activities is that these have already happened in the recent past, according to the Director of the Financial Information Unit<sup>63</sup>.

**8- Human Capital.** The Cape Verdean government prides itself in having universal primary education with gender parity, along with almost full literacy among youth labour<sup>64</sup>. Be as it may, when it comes to the key human capital for a WM business, its wealth managers, a high level of specialization is essential, a trait directly related to the high complexity and range of requests that can be asked of these professionals. Being to some degree ahead of other African countries, education wise, Cape Verdeans are definitely to be considered for some positions within a WM firm, but in order for them to achieve the level of other countries' pool of trained and experienced WM specialists, a lot of investment in their training would have to be made.

**9- Financial System Stability.** The vulnerability of the country to external shocks presents itself as a threat to most companies there located. The fact that the prolonged downturn in Europe had a slowing down effect on the archipelago's growth<sup>65</sup> proves just that. Furthermore, the financial stability risks have increased in recent years due to

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<sup>61</sup> US Department of State: Bureau of Economic and Business Affairs. 2013. "Investment Climate Statement - Cape Verde", <http://www.state.gov/e/eb/rls/othr/ics/2013/204617.htm>

<sup>62</sup> Automatic Exchange of Information: the process by which jurisdictions can share details of offshore accounts and account holders. Essential step to tackle tax evasion, corruption and money laundering. Countries that already signed bilateral or multilateral agreements between each other include all OECD and G20 countries, most major international Finance Centers and, in Africa, South Africa and the Mauritius. Cape Verde currently has only a bilateral agreement with Portugal and with the US, through the Foreign Account Tax Compliance Act.

<sup>63</sup> For more information regarding past money laundering, please read the article: "Cabo Verde vulnerável à lavagem de capitais", <http://noticias.sapo.cv/info/artigo/1303410.html>

<sup>64</sup> Africa Development Bank. 2012. "Cape Verde, A Success Story", p.14

<sup>65</sup> IMF Staff report. 2014. "IMF Country Report No. 14/296: Cabo Verde", p.1

the fall in bank profitability and increase of non-performing loans. At the same time, the banking system capital adequacy<sup>66</sup> remains solid in most banks, reflecting a will to stay stable and efficient, that mirrors the country's central bank own commitment to Financial Stability.

**10- Capital Markets Development.** Despite being fully operational and active in the issuance of bonds, the Cape Verdian stock market, Bolsa de Valores de Cabo Verde (BVC) has only 24 active securities, 4 of them listed companies in the shares segment, and 20 listed bonds<sup>67</sup>. Where the BVC lacks in size it tries to compensate in compliance with international regulations and best practices such as the use of notable technological platforms also preferred by the leading financial markets. Nevertheless, for investment purposes this marketplace comes up wanting in attractiveness and competitiveness when compared to the UK and US, for example, and their strong capital markets.

**11- WM Service Quality.** One of the most vital key success factors a WM firm has to thrive in is its service quality. Not only is it important to offer the adequate products and services for the target customer, but also to invest in relationship management and make sure the team of specialists that interact with the customer are well compensated for their efforts.

### Recommendations

Taking into account the previously evaluated strengths and weaknesses of CV, the segment targeted, and the clues given by the global market trends, these are the recommended services a Cape Verdean WM firm should offer:

- a) **Advisory Services:** Today, according to EY's Global Wealth & Asset Management Center, HNWI investors are armed with easy access to information and products that cheaply and easily deliver them the aggregate market return (namely major index

<sup>66</sup> Ibid, p.6: Ratio of Capital to Risk-Weighted Assets reached 13% at end-2013, above the 10% minimum in all except one bank.

<sup>67</sup> **Bolsa de Valores: Cabo Verde.** (Stock Market) <http://www.bvc.cv/Home.aspx> (accessed November 28, 2014)

ETF's). Consequently, they are moving from recruiting wealth managers to help them reach absolute returns, to employing their expertise in the achievement of personal goals. This is why having holistic advisory services in WM is crucial. In addition, it would be advisable to take into consideration the cross-industry allocation home bias displayed by Africa's wealthy, along with the advantageous local knowledge a business located in Africa is bound to accumulate, and specialize in all things African:

- Investment opportunities, from funds, equities and bonds, to real estate and other growing industries in the continent;
- All sorts of tailor made Planning taking into account cultural differences and customs (examples: Financial, Education, Retirement and Estate Planning);
- Tax, regulation and compliance in each country;
- And finally, also develop tailored advice according to the source of wealth, as well as distinct pursuits (philanthropic, sports, luxury goods).

- b) **Asset Management:** After advising clients regarding all sorts of matters and wealth allocation, it makes sense to also offer asset management services and transition from planning to implementation. A network of partners should be constructed in order to be able to efficiently comply with each client's instructions and preferences (including brokers of several of assets types, stock exchanges, judicial and IT consultants, and insurance companies). The service could go from more or less discretionary, according to each client's preferences and previously defined parameters.
- c) **Core banking** (current accounts, time deposits and liquidity management): Core banking is recommended in order to take advantage of CV's advantages as a secure, private, stable, and tax advantageous location to store part of one's wealth.
- d) **Specialized Services** (concierge-types services, including yacht broking, art storage, real estate location, and hotel, restaurant and theatre booking): This type of services presents yet another means to further specialize in Africa, since part of them would definitely be happening there. In addition, the level of tailoring and personalization present in the offer of such services is bound to make the clients feel special. They are also a wonderful opportunity

to gain notice through public relations, as Citigroup does for example, by inviting their customers to exclusive events where they can hear speeches by specialists or meet other prominent people<sup>68</sup>. Another advantage of these services is the possibility to outsource them to some extent.

Apart from the offered products and services, a WM firm should concern itself with how, and whom interacts with their clients. Being a personalized service that deals with one of the most sensitive matters in a person's life, their wealth, it becomes exceedingly important that **relationship managers** develop a loyal, durable and trusting relationship with their clients. Time should be invested to understand each client's needs and how they prefer to interact with advisor(s). At the same time, clients might expect total availability to interact "wherever and whenever they want"<sup>69</sup>, especially since the coming of age of a new generation of technologically savvy individuals. To answer this evolutionary trend, firms should invest in a multichannel, digital environment that allows an integrated and constant communication, with the potential to further enhance the client-manager relationship (examples: mobile and social media applications, videoconference). In addition to supplying the right **interaction tools**, it is imperative to also find the best talent to actually interact with the clients. Training, competitive compensation and adequate support for relationship advisors is a best practice frequently adopted by the leading WM firms<sup>70</sup>.

**12- Efficiency of WM service.** The efficiency of WM services is most commonly measured by two distinct KPI's: Cost Income ratio (CIR) and the Return on Assets (ROA). Albeit influenced by external factors, the attractiveness of these two indicators is, ultimately,

of the responsibility of each firm:

$$CIR = \frac{\text{Operating Costs}}{\text{Operating Income}} \quad ROA = \frac{\text{Revenues}}{\text{Client assets and liabilities}}$$

<sup>68</sup> Chishty, S., Erasmus, M. and Oberstein, J. "Winning in wealth management", Bain&Company, p.7

<sup>69</sup> PWC. 2014. "Global wealth management outlook 2014-15: New Strategies for a changing industry", p.18

<sup>70</sup> Chishty, S., Erasmus, M. and Oberstein, J. "Winning in wealth management", Bain&Company, p.7

CIR, simply put, measures the relation between the utilized output and input of a firm<sup>71</sup>. Naturally, the lower it is the better. In the WM business, the average values of this indicator have been steadily increasing<sup>72</sup> mainly as a consequence of the raised Legal, Compliance and Risk Management costs<sup>73</sup>. ROA, on the other hand, measures how efficiently providers maintain sustainable profitability on the management of their client's assets<sup>74</sup>.

### Recommendations

In the face of the increased cost of doing business, it is advisable for a new firm to carefully consider their value proposition beforehand, avoiding thus unnecessary costs and unprofitable products. That is why, in the previous section, only 4 major product poles are proposed, with Core Banking strategically not taking too much of the crucially important time of the financial advisors and relationship managers, and the Specialized Services relying heavily on efficient outsourcing from more specialized sources. Furthermore, there is a possibility to work towards the implementation of a premium on a new firm's products and services, by becoming a valuable and trusted brand before additional competition arises to target the segment. In order to keep a constantly competitive ROA, a common practice is to ensure the efficiency of the relationship managers by having their remuneration be a function of accomplished revenue<sup>75</sup>. Additionally, careful policies and due diligence should be in place in order to avoid operational and reputational risks.

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<sup>71</sup> **Hussain, S.** 2014. "The Assessment of Operational Efficiency of Commercial Banks in India Using Cost to Income Ratio Approach", p.2

<sup>72</sup> The average CIR of an European firm, for example, has increased from 60% in 2007 to 78% in 2012- PWC "Global wealth management outlook 2014-15: New Strategies for a changing industry", p.11

<sup>73</sup> For more details on cost structure evolution go to BCG report "Global Wealth 2014: Riding a wave of growth" p.15

<sup>74</sup> **Deloitte.** 2013. "The Deloitte Wealth Management Center Ranking 2013: Measuring competitiveness of international private wealth management in Switzerland", p.27

<sup>75</sup> **BCG.** 2014. "Global Wealth 2014: Riding a Wave of Growth", p.15

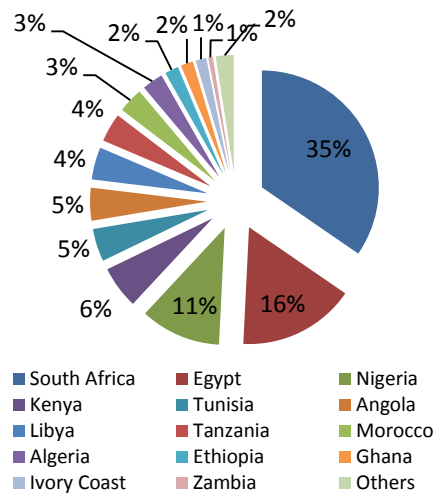
## CONCLUSION

The study has set out to explore how attractive is the creation of a new WM business located in CV. Its importance is significant from a Portuguese point of view, given the existing positive relations between the two counties, certainly increasing the appeal of the archipelago as a business jurisdiction for a Portuguese firm. Despite the existence of numerous studies about Global Financial Centers, little was yet made regarding potential ones, and even more so, concerning ones located in Africa. The industry was found to be inviting in face of the growth prospects of the African wealthy population and respective wealth, as well as by the relative low number of competitors targeting this segment. WA appears to be a good first target, being one of the regions most neglected and with greater growth prospects. CV, despite having some disadvantages as a finance business center, namely because of its small Capital Market, not very specialized work force, slightly instable financial system and imperfect illicit capital repellants, comes out as quite attractive, especially in comparison with other African jurisdictions. The positives include its monetary and political stability, tax incentives, relatively developed infrastructure and regulations as well as its travel destination allure. If the new business is able to create a quality and efficient service, tailor made to attract the suggested target, its success will certainly be achieved. As in the case of many other papers done with the focus of this continent, various information barriers were found, with the majority of available information belonging to big consultancy firms focused only in developed markets. There is still need for more case studies at a local level to allow further assessment of the country characteristics, as well as a survey to confirm the weight of the appeal this business has to African investors. Nonetheless, the benefits of such a business are found to be substantial and the consideration of its implementation in the future is not to be discarded.

## APPENDIXES

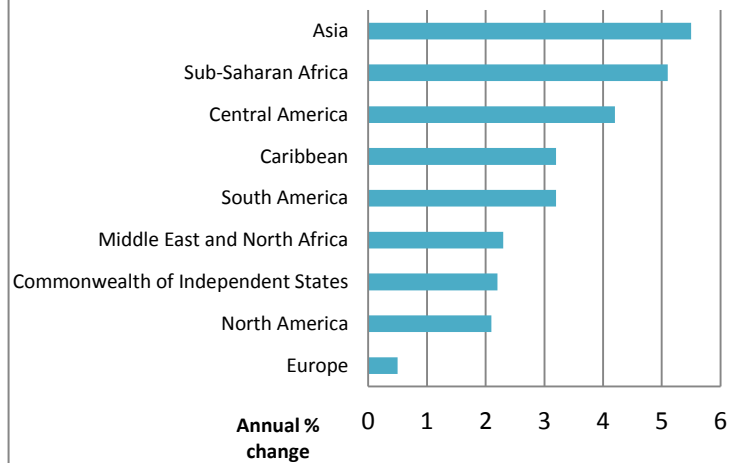
Appendix I : African HNWI's population distribution - 2013

Source: NW- Wealth 2014



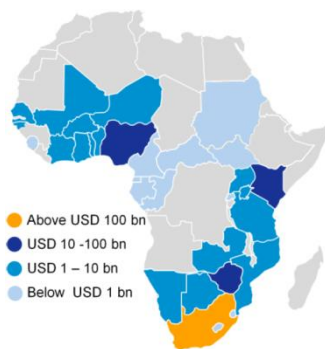
Appendix II: Real GDP growth rate, Select Regions - 2013

Source: IMF, October 2014. World Economic Outlook: Legacies, Clouds, Uncertainties.



Appendix III: Stock Market Capitalization (2012)

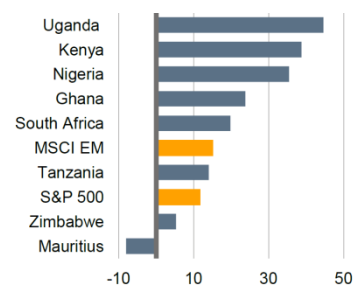
Source: DB Research, October 2017. "Capital Markets in Sub-Saharan Africa"



Appendix IV: Regional stock indices' returns, % yoy, 2012

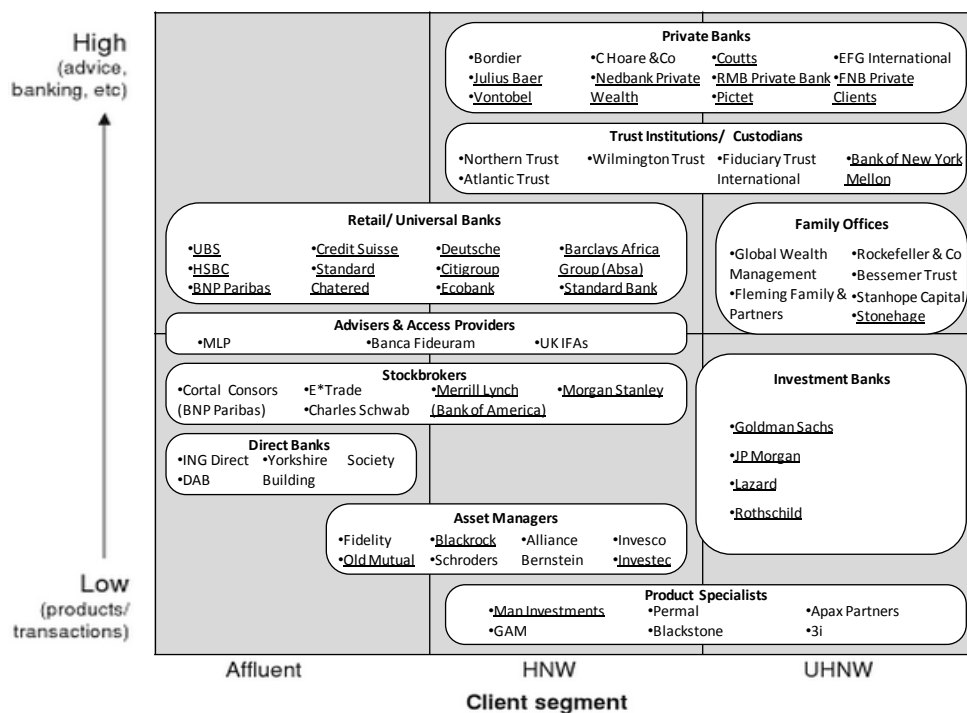
Source: DB Research, October 2017. "Capital Markets in Sub-Saharan Africa"

\*MSCI EM- Emerging Markets



Appendix V: Wealth management competitor landscape (Underlined firms have (an) African office(s))

Source: Global Private Banking and Wealth Management: The New Realities By David Maude, page 35; Euromoney Private Banking and Wealth Management Survey 2014





## Appendix VI: Cape Verde indicators

Source: World Bank database, Ease of Doing Business 2015 report, Transparency International, The Economist Intelligence Unit Limited 2013, Mo Ibrahim Index of African Governance 2014, Worldwide Governance Indicators 2013, PWC Worldwide tax summaries.

Country Indicators	
GDP per capita (current US\$)	3.784,60 USD
Country Wealth (1=low income, 2=lower middle, 3=upper middle, 4=high income (non-OECD), 5=high income (OECD))	2
Literacy Rate (total population %)	85,3%
Ease of Doing Business overall rank out of 189 countries (2015)	122
Transparency International Corruption Perception Index (0=highly corrupt, 100=very clean; ranked 1 <sup>st</sup> in West Africa)	58
Democracy Score (0=lowest, 10=highest); Regional Rank: 1 <sup>st</sup>	8
Mo Ibrahim Index of African Governance (rank out of 52 countries)	2
Perceptions of Governance – rule of law; percentile rank (0=lowest, 100=highest); Sub-Saharan Africa score= 29	64.93
Perceptions of Governance – regulatory quality; percentile rank (0=lowest, 100=highest); Sub-Saharan Africa score= 30	48.33
2014 Index of Economic Freedom (Moderately Free); Regional Rank: 3 <sup>rd</sup> (behind Mauritius-76.5 and Botswana-72)	66.1

## Appendix VII: Withholding Tax comparative analysis (Blue- countries that have Double Taxation Agreements in place;

Green- CV Fiscal Benefits for International Financial Institutions)

Source: World Tax, <http://www.itrworldtax.com/>; Deloitte International Tax Source, <https://dits.deloitte.com/>; and Banco de Cabo Verde's "Código de Benefícios Fiscais, Lei nº 26/VIII/2013 de 21 de Janeiro"

	Dividends			Interest			Royalties		
	Ghana	Ivory Coast	Nigeria	Ghana	Ivory Coast	Nigeria	Ghana	Ivory Coast	Nigeria
Switzerland	5- 15%	15%	0%/ 35%	0- 10%	0- 15%	0%	8%	10%	0%
Luxembourg	15%	15%	15%	0%	0%	0%	0%	0%	0%
UK	0%/ 7,5- 15%	0%/ 15%	0%/ 12,5-15%	12,5%	15%	12,5%	12,5%	10%	12,5%
Singapore	0%	0%	0%	15%	15%	15%	10%	10%	10%
Hong Kong	0%	0%	0%	0%	0%	0%	4,95- 16,5%	4,95- 16,5%	4,95- 16,5%
United States	30%	30%	30%	30%	30%	30%	30%	30%	30%
South Africa	5- 15%	15%	7,5- 10%	5- 10%	0%	7,50%	10%	12%	7,50%
Cape Verde	0%	0%	0%	10- 20%	10- 20%	10- 20%	20%	20%	20%

## Appendix VIII: Corporate Tax comparative analysis (Green- CV Fiscal Benefits for International Financial Institutions)

Source: World Tax, <http://www.itrworldtax.com/>; Deloitte International Tax Source, <https://dits.deloitte.com/>; and Banco de Cabo Verde's "Código de Benefícios Fiscais, Lei nº 26/VIII/2013 de 21 de Janeiro"

	Corporate Tax	Capital Gains
Switzerland	11,0- 24,0%	11,0- 24,0%
Luxembourg	21,0%	21,0%
UK	21,0%	21,0%
Singapore	17,0%	0,0%
Hong Kong	16,5%	0,0%
United States	35,0%	35,0%
South Africa	28,0%	18,6%
Cape Verde	0-10,0%	10,0%

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